CHINA, THE FUTURE HEGEMON OF THE GLOBAL ECONOMY?

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Abstract

The emergence of China as an industrial powerhouse has been a major driving force in shaping the modern day global economy and this has given rise to speculation that there may be a shift in global economic power - China's new economic status has fuelled talk that it could soon overthrow America as world leader. However, according to Gilboy (2004), China's economic accomplishments and potential as a hegemon are overstated. Besides which, Lieberthal and Jisi (2012) state that the U.S. welcomes a wealthier and globally more involved China - on condition that China tries to be a constructive player at a regional and global level. This paper looks at these different views on China's place in the global economy. The question is posed as to whether or not the Chinese economy could become the new global economic core. After considering the literature on this topic and analysing some data, the objective view arrived at is that while China's economic achievements are indeed impressive, there are other factors that could prevent this country from becoming a serious contender to America's hegemonic position. In addition, the notion of a strategic partnership between the two countries is also considered, provided they can move past the general air of mistrust between them. It would appear that the American economy remains reasonably strong and steady compared to other economies - even in light of the current world recession. While China may seem to have the potential to acquire great power, she still has some way to go before reaching developed-country status. On the other hand, it is contemplated that when China does reach this stage of development there may in fact be space in the world for two hegemons –a situation which could significantly alter the world's power dynamics.

Key words: China, economic growth, hegemonic power, decline, distrust, partnership

OVER THE PAST THREE DECADES, CHINA'S unprecedented economic growth has been making world headlines. It all began with the initiation of economic reform in 1978. These reforms will be briefly highlighted and the motivations behind them will also be explained to determine what China did right in its reform that other countries were unable to do. China's new economic status is fuelling talk that it could soon overthrow America as the world leader as it is seen that the one who yields global economic power also dictates political power. The speculation that the U.S. economy is in decline will be considered in Section 2, while the Chinese miracle economy will be discussed in Section 3. China is also experiencing some problems (Section 4), and some argue that the Chinese economy is not as resilient as it may seem. Whether or not China will become the global hegemon is still speculation. In the meantime, it is suggested in Section 5 that by cooperating with each other, the U.S. and China could both have a positive influence on the global economy.

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1. THE ROAD TO SUCCESS

China has experienced significant economic growth since the initiation of economic reform in 1978. The economic reform involved the transition from a centrally planned economy with very limited foreign economic interactions to one where they gradually opened up to trade and foreign investment. They gradually attracted foreign investment by initially establishing four special economic zones (SEZs) along the coast (Morrison, 2009:4). These regions promoted various exports, as well as imports of high technology products that China was greatly in need of. They also offered foreign investors regions where they could carry out their activities with good infrastructure and little interference from authorities (Rodrik, 2006: 18). The peripheral areas also benefitted as development spilled over from the SEZs, a trend which can still be observed today as China tends to become less developed the further one moves inland from the coast.

The majority of the world economies generally frown upon the concept of a centrally planned economy. A classic example that promoted these perceptions is that of the former USSR where central planning failed. China has however managed to make this strategy work for its economy and ultimately attained record levels of economic growth (Rachman, 2011:1).

Given the rate at which China is growing (Appendix 1), the US is getting worried about being displaced as the economic leader- position that it has held for a long time. Investment as a share of GDP in USA and the UK has been decreasing whilst that of China has been increasing. Previous economic threats came from Japan and the USSR, but due to their structural characteristics, they never became credible threats. China has however overcome most of the challenges that these countries faced and has gained economic-political clout amongst the global fraternity (Woo, 1999:120). This has resulted in China being the preferred trading partner of many emerging economies, for example Brazil and South Africa (Rachman, 2011: 1). Such evidence concurs with Lewis's (1980: 560) recommendation that the developing world increase trade with each other to wean off the dependency on the developed world as markets for their exports.

China has also been active in assisting developing countries and even some developed countries as was seen when it lent assistance to the Eurozone during its recent (2009) crisis. China has been forming new political- economic allegiances and some countries have migrated from the US camp to the Chinese. Brazil and India chose to vote with China at the international climate change conference (Copenhagen-2009) and in another instance, Brazil and Turkey voted against the US regarding sanctions to be imposed against Iran at the United Nations Security Council 6335th meeting in 2010. Brazil and Turkey are amongst the countries also gaining economic momentum. Brazil's middle class rose from 29% in the 1980s to 52% in 2009 whilst income per capita in Turkey almost tripled between 2002 and 2011 (Bott, 2013:1).

America and countries in its traditional European network of trading partners such as England, France and Germany are slipping down the economic ranks. Such actions are altering the economic geography of the world with countries that used to be in the trade peripheries gaining momentum and playing bigger roles in trade (Rachman, 2011: 1).

China's accession into the WTO in 2001 was also seen as a determining factor in China's success; however it received mixed reactions. While some thought it was a positive thing for China's economic development, others were concerned about the effects that the added competition would have on Chinese industrial, service and agricultural sectors (Chow, 2001:6).

China has been particularly successful in the export of consumer electronics and this was not expected given China's relative income levels. The Chinese electronics industry was found by Farrell, *et al* (2003:86) to have a labour productivity equal to that of Mexico where the Mexican per capita GDP is almost twice that of China. China has also been increasingly moving away from the assembly to the actual production of components through reverse integration of the supply chain- basing their success on their ability to make productivity jumps (Rodrik, 2006: 18). Rodrik (2006:1) attributes much of Chinas export success to more than just comparative advantage and market liberalisation. The policies implemented by the Government also played an important role in nurturing the capabilities of domestic producers. China's growth was also promoted by the neoliberal trend in the global economy which has made the flow of capital to developing countries easier, allowing East Asia to become the core of global manufacturing whilst North American manufacturing has stagnated and seems to be in decline (Ivanov, 2011:1).

This phenomenon of a new core forming seems to illustrate what Arthur Lewis addressed in his 1979 Nobel-prize-winning lecture and subsequently published article: *The Slowing Down of the Engine of Growth* (1980). In his article, he tried to explain the relationship he had observed between industrialised countries and international trade, and how this impacted the exports from less developed countries (Lewis, 1980: 563). It was observed that during recessionary periods, the industrialised countries reduced their imports from developing countries and ultimately have a negative effect on the developing countries (Lewis, 1980: 556). Lewis argued that one way developing countries could overcome this dependency would be to increase trade amongst themselves. In so doing, he further suggested the possibility that developing countries could eventually create a 'new trade centre' in the developing economies which would reduce their reliance on the markets of the developed world. He tentatively mentioned Brazil as a possible candidate for this position.

At that time, very few if any would have thought that the country destined to take this role would be the country, which a couple of decades before had gone through a disastrous period called the Cultural Revolution. China had started to reach out to the West and was beginning to show elements of economic growth during the 1970s. Despite this, many sceptical economists claimed that if there really was economic growth- it would probably be short-lived. Others went further to argue that the data had more likely been manipulated and the growth figures were largely over-exaggerated. It was against neoclassical-economic logic that China could actually become a roaring success - a country that was still solidly centrally planned could never be the hope of the developing world.

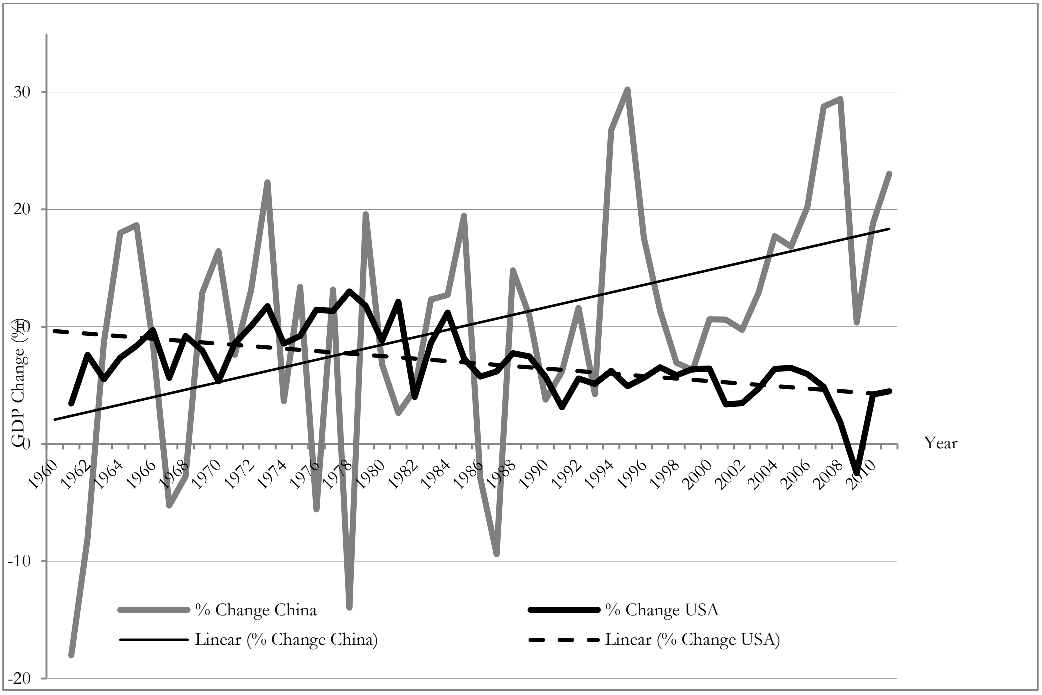
2. DECLINING U.S. POWER

The claim that the U.S. economy seems to be in decline is condisered by looking at the following factors.

2.1. GDP Trends

U.S. and Chinese GDP is shown in figure 1 which was drawn using data collected from the World Bank (2012) to see the trends in the percentage change in GDP for America and China from 1960 to 2011. According to GDP data, the changes for the U.S. GDP fluctuate within a narrower range whilst those of China have a much broader range and are more erratic. A linear trend line was fitted for the data and it shows that China has a positively sloping trend whilst that of America is negatively sloped. From the graph, one can observe a gradual decline in U.S. output growth. America's greatest change in GDP was last recorded in 1978 when there was a 13.02% increase from the previous year (Appendix 1) and it has been decreasing since then.

Figure 1: U.S and Chinese GDP Change Trend (1960-2011)



(Source: Author's own analysis. Refer to Appendix 1 for actual data.)

This trend coupled with America's adverse fiscal position and the continued growth of economies like China, Brazil and Turkey, seems to portray what could be an irreversible and significant shift in global economic power (Kagan, 2012: 1). The U.S., as a 'brand' has been slipping down the popularity ranks. This was promoted by things such as America's various responses to the September 11 attacks and the highly condemned invasion of Iraq in 2003 which reinforced the notion that the U.S. fails to abide by its own ideals. Walt (2005:115) goes further to state that 40-60% of the people in the world 'dislike' America and America is now in a struggle to win the minds and hearts of the world and it appears to be failing. In-fact, according to Walt (2005:115), Washington will continue to face increasing resistance as anti-Americanism grows- leading Americans to feel increasingly paranoid and threatened. Attempts to face these challenges alone will further increase the worlds' fear of U.S. power and will isolate them even more

Nevertheless, some countries have developed the "bandwagon" mentality with regards to their relationships with America and instead of "resisting" they align their policies with those of Washington. In such a case, countries develop a relationship with the core economy- in this instance America, and use its domination to their advantage for instance, through getting protection from regional threats. However, not every country can have such a favourable relationship with the U.S.; the failure of the former Spanish Prime Ministers' party in 2004 was partly attributed to their refusal to side with the U.S. regarding the Iraq war (Walt, 2005:111).

It appears that for those that decide to "partner" with America, these benefits come at a cost: compliance. There are however, many countries that choose not to achieve their goals by developing a relationship with U.S., this is often the case when a country's policies are not compatible with those of the U.S., or for countries with a strong sense of sovereignty. Some weaker countries will come together and band against U.S. hegemonic influence, some might use blackmail such as threatening Washington with the spread of nuclear weapons in an attempt to extract concessions, and others choose to simply ignore or refuse U.S. demands (Walt, 2005:111).

2.2. The 'Bigger' Picture

It would be prejudiced to base the degree of a country's economic power solely on tangible elements such as physical GDP output. Intangible aspects should also be taken into consideration (Nye, 1990b:180). Kagan, (2012:1) claims that the sense of decline of the U.S. economic power requires a more rigorous analysis and in turn challenges the perception of U.S. decline that seems to grow with each failure the U.S. faces. He claims that it is premature to declare that the U.S. is in decline based on mostly evidence that came into light after the global crisis of 2008. "Just one swallow does not make a spring, one recession, or even a severe economic crisis, need not mean the beginning of the end of a great power." Kagan (2012:1) explains further that the U.S. suffered deep and persistent economic crises in 1893, 1929 and 1973 and in all instances the U.S. economy rebounded back.

Despite the recent recession and slow growth, America's position in the world has not changed, with its GDP representing 25% of global output, a figure that has remained fairly constant over the last four decades. Scissors (2010:2) advises that the U.S. focus on fixing their own policies- that significantly reducing the budget deficit, stabilising interest rates and reducing government regulation (especially taxes) will allow their economy to recover.

Harris (2012:3) points out that the end of the Cold war led to a new world order in which the U.S. was on top and its supremacy is still evident today in the world economy, currency markets, lifestyle and mass culture that floods the world today. Harris (2012:4) regards the American Dollar (USD) as the currency that 'lubricates' global prosperity. For example, numerous commodities such as oil, gold and coffee that are produced across the world are traded in USD. Many governments also use the USD as the major currency for their cross-border investments. In 2011, almost two-thirds of foreign governments held a combined estimate of $7 trillion of foreign exchange reserves in USD. This led Harris (2012:4) to conclude that "…the U.S. has dominated the world economy in a way that gives it a clear advantage; not simply by becoming a dominant economy, but by creating a world economic environment that sustains its dominance."

2.3. Measuring Dominance

The "yardstick" for measuring dominance has evolved over the years. During the seventeenth century, the mercantilists placed a strong emphasis on a country's reserves of gold and silver bullion. In the eighteenth century, France gained power through better administrative policies and a larger population. Whilst in the nineteenth century Britain dominated with political stability and an ideal environment for its Industrial Revolution (Nye, 1990a:474). In this modern era, information, research and technological prowess have become better indices of economic power.

America used to be the global leader in innovation and according to a study by the Boston Consulting Group and the Information Technology & Innovation Foundation (ITIF), using hard measures like research spending and patents, America came in 8th out of 110 countries in 2009. "America's future growth will have to come from new industries that create new products and processes." (Zakaria, 2011:1). An example given is how the Korean government focussed on developing certain industries resulting in their country becoming a major shipbuilding country. With the rise of cheap manufacturing and services in China and India respectively, Zakaria (2011:1) highlights the importance of innovation and states that it is the key to America's future. The elements which support innovation are also characteristic of American nature; these include ingenuity, freedom and the willingness to question conventional ideologies and defying authority.

Nevertheless, the U.S. is in need of a technological breakthrough and the environment that fosters such development requires vibrant companies and prominent Universities which devote time and energy to research and experimentation using substantial government financing. The U.S. has the advantage of being the ideal place for this as their government spends billions of dollars backing science and technology research. However Zakaria (2011:2), points-out that despite such government backing, there are still looming issues such unemployment and adequate healthcare provision that still need to be addressed. Overall, America needs innovation urgently and this will require an overhaul of education, training, high-end manufacturing and infrastructure. Finding new ways of doing these old tasks could be the biggest and most significant innovation of them all. This will be a key advantage over China as the centrally-planned Chinese economy created rigidities which restrict it from being an information-based economy.

The world is mesmerised by the rapid growth of China and other newly industrialised countries (NICs). This growth has however come at the expense of Europe, Japan and America. Kagan (2012:1) also considers the size of a country's military and as most leaders know, "military strength underpins hegemony". Globally, the U.S. military remains unmatched and in the 2012 fiscal year, military spending was over $900 billion- which is more than double the 2002 amount (U.S. Government Spending, 2012:1). Nye (1990a:472) warns against such massive spending and explains that as a country grows, it is necessary to maintain a strong military presence to protect its increasing economic interests. However, a stage is reached where the costs of maintaining the military drains the country of its financial reserves that could be used elsewhere, until eventually it is replaced by another rising economic power. One would then have to regard the U.S. military as either a source of power or based on its lavish budget, a weakness. Friedman and Logan (2012:177) suggest that U.S. military spending is "foolish". They do however explain that "Americans tolerate waste and foolishness in the name of security primarily because we (Americans) can afford it."

The continuous unrest in the Middle East has been argued by some as proof of the limits of military power and despite the robustness of the U.S. military, these wars proved to be heavily taxing on the nation as a whole. This has led some to compare the U.S. situation to that which led to the collapse of the British Empire during the late nineteenth century; with the Iraq and Afghanistan wars being to America what the grim Anglo Boer war was to Britain (Kagan, 2012:1). The same can also be said regarding the Vietnam War of 1955-1975 which saw millions of fatalities including over 58000 deaths of U.S. service men (U.S. National Archives, 2012). Harris (2011:19) presents insight on how the idea of war has changed over the years. The goal of war "to create conditions where your enemy must submit to the conditions you impose" can now be achieved without armed conflict.

3. THE CHINESE ECONOMY, THE FUTURE HEGEMON?

The emergence of China as an industrial powerhouse has been a major driving force in shaping the global economy. It is described by Ikenberry (2008: 23) as undoubtedly being "one of the great dramas of the twenty-first century." China's presence has been greatly felt it the majority of the world economies particularly in industries such as textiles, consumer electronics and electronic intermediates. It continues to heavily demand foodstuffs, capital intensive manufactures and primary products- and especially energy where it is the largest consumer of oil in the world; for example, in 2011 China consumed 21% of total global energy (Eichengreen & Tong, 2005:74; British Petroleum, 2012:19).

In other words, there was no one developing country, or even for that matter, no one regional group of developing countries that were economically strong enough to bolster the demand for the rest of the world's developing nations during the global recession.

Until the rise of China as an economic powerhouse with considerable global influence, there was no single country amongst the developing economies that could claim to be a Lewis-type centre for trade between developing countries. Unlike most Asian economies, the Chinese economy is more likely to recover from economic downturns as was evidenced by the way it was able to recover from the 2008 global financial crisis. Yongnian and Tong (2010:30) attribute this to China having sound fundamentals. Domestic savings by the Chinese as a percentage of GDP were an estimated 35% during the 1980s. This number further increased to 41% and in 2007, savings were an unprecedented 53% of GDP- one of the highest in the world (Yang *et al.*, 2011:1). Such substantial savings have been important in their success as high levels of savings eventually find their way into strengthening the country's position on liquidity, economic growth, investment, income distribution and international trade and capital flows

3.1. Domestic Demand

China's economic growth is not only powered by strong external demand, it is also driven by significant domestic demand in the form of strong domestic consumption and high domestic fixed asset investment. This is not surprising given the fact that the Chinese make up an estimated 20% of the world's population. Through the 1980s and 1990s, this domestic demand made up almost 90% of China's demand. Even after the surge in external demand after China's WTO accession, domestic demand still constitutes an estimated 85% of total Chinese output.

Yongnian and Tong (2010:32), also explain that this trend is likely to continue due to China still being a 'young' economy in the process of industrialisation and urbanisation. With over 40% of the Chinese population still in the rural regions, there is potential for further increases in demand through projects involving infrastructure and urban expansion. Numerous media and scholars from the West tend to disregard domestic demand and think that the demise of China's growth will come from a decline in exports. However, external demand as a portion of GDP has been increasing- especially after China's accession into the WTO. It is expected to keep increasing thus gaining a more significant role in China's future economic growth (Yongnian and Tong, 2010:35).

3.2. Fiscal Position

Fiscally, the Chinese economy is sturdy which allowed it to recover quickly from the financial crisis of 2008. There were however some "casualties" which included a loss of an estimated 600 000 jobs. In the beginning of 2008, 100 600 new firms opened their doors and by the end of 2008 over 62 400 had been eliminated. The Chinese government continues to promote domestic demand as they realise that in the face of a global crisis the expected decreased global demand is beyond their control. For instance, export demand dropped by 17.5% in 2008 (Yang and Lim, 2010:35). Their sturdy fiscal position is shown by a budget deficit that has been fast decreasing from 3% of GDP in 2000 to a surplus of 0.7% of GDP in 2007. Over the same period, the developed economies had been experiencing increases in public debt and budget deficits. In the U.S. for instance, their budget balance fell from 2.4% of GDP to -3.2% of GDP (Yang and Lim, 2010:36).

3.3. The Chinese Military

In 2003, Eland (2003:1) stated that the concern that China's military modernization would become a threat to the U.S. was unfounded, as in that period the U.S. spent nearly ten times as much on their military as did China. Eland (2003:2) ultimately concluded that despite China's increased spending, it was still lower than America's rate of increase and the gap between the two was actually widening. There is a need to revisit this as Perlez (2012:1) states that China recently announced a double digit increase in military spending whilst being secretive about the weapons system it is pursuing. With its growing economic success, China has more money to spend on its troops than it did ten years ago and this spending increases concurrently with economic growth rates. This is at a time when there is a growing gap between what China is spending compared to what other countries in the region spend, many of which are American allies. Should Chinese military spending continue to rise, it reinforces America's unease that they may no longer continue to be the dominant power in the Asia-Pacific region (Perlez, 2012:1).

4. THE CHINESE ECONOMY: SOME CRACKS SHOWING?

According to Gilboy (2004:33) and Christensen (2011: 59), China's economic accomplishments and potential are overstated and are creating an "irrational exuberance" in foreign firms as they fixate over acquiring shares in Chinese firms with little understanding of how the firms operate. Such actions are promoting suspicions that China may tilt global trade in its favour. This section serves to determine whether or not the Chinese economy can maintain its substantial exports by looking at some economic indicators.

4.1. Financial Sector

Williams (2011:1) questions the issue of how the Chinese economy managed to maintain considerable GDP growth figures (9.6%) during the 2008 crisis whilst that of its biggest clients- the EU and USA- were almost insignificant at an estimated 2%. Exports constitute approximately 15% of China's GDP, and the 2008 crisis resulted in a 16% decrease in exports during 2009. In order to have achieved the reported 9.2% GDP growth in 2009, either domestic consumption must have increased or there was increased government expenditure. It was reported that Chinese 2009 spending only increased by 0.1% from the previous year which does not make up for the 16% drop in exports. This leaves the option that the government sunk billions of dollars into the economy.

Williams (2011:1) further states that China's increasing leverage is a dangerous recent development. China is misguidedly overlooked when discussing overleveraged economies and much of their investment is financed by bank loans and a significant amount of these investments exist merely to maintain their high GDP rate. The high investment has also lead to China overproducing in many sectors leaving exports to take up the surplus production.

The fact that China's economic growth has averaged 10% in recent years is a surprising achievement especially in an economy that is already worth trillions of dollars. Such a situation has given rise to concerns as the rapid growth has led to increased pressure on resources. The growth of the middle class has led to escalating food and housing prices as real estate is used as collateral for government loans. The Chinese government encourages citizens to save and to be investment oriented, however a volatile stock market and an underdeveloped capital market has led to heavy dependency on the rising real estate prices as a source of returns (Williams 2011:1). These factors, amongst others, have contributed to a housing bubble. In the period from 2010 to 2011, house prices in nine major cities in China increased by 21.5%. It is becoming increasingly difficult for the average individual to buy a house. In 2006 the average apartment in Beijing cost $100 000 and it would have taken a person with average disposable income thirty-two years to save enough to buy the apartment. In 2011 the average apartment cost $250 000 which would take the average citizen fifty-seven years to save. The government has been attempting to slow down the bubble through various mandates such as requiring 60% of the purchase price of real estate be paid upfront as cash. They are however faced with a trade-off, as such behaviour will work against their growing economy (Williams 2011:1).

Williams (2011:1) concludes that many investors "…have yet to grasp a firm understanding of both how secretive and manipulative the Chinese Government is, and how much debt is ridden [integrated] in the system." And "…a horrific financial structure will be a major factor in China's eventual crash landing." Another concern Williams (2011:1) brings to light is that Chinese banks are caught-up in bad debts and are increasingly bundling them up and selling them to outside investors for money. This process is known as securitisation and Chinese authorities are deliberating over allowing banks to increase securitisation of more of their assets as a source of income to reduce pressure on liquidity.

In addition, a decrease in exports would cause constant oversupply which would create severe deflation, negatively affecting genuine Chinese growth (Scissors, 2010:1). Money borrowed by state enterprises and subsidiaries is backed by questionable collateral making the system riskier. Private banks were not permitted to collect interest on loans thus if they lend money to government sectors it will in effect be 'free'. The Chinese government is also committed to maintaining GDP growth above 7% for the next several years as they require this to counter the adverse effects of the large-scale migration into the cities. The hierarchical government structure is such that the functioning of the economy is decided upon by a few government officials who continue to control their economy in order to maintain its growth. China's relatively unreformed political structure has given rise to an environment where domestic firms operate within an "industrial strategic culture" seeking to develop relationships with authorities where they can get privileges. This behaviour promotes a focus on short-term profits, local independence, over-diversification and foregoing investment in long-standing technology and diffusion (Gilboy, 2004:34). Gilboy (2004:34) concluded that the terms under which China joined the global economy limit its potential to be a threat to industrialised and advanced economies as it is also heavily dependent on foreign technology and investment. These factors combined with a wealthier and more educated Chinese population that has begun protesting against the oppressive government system, lead Williams (2011:1) to believe that China is vulnerable to collapse.

4.2. Food Security

Furthermore, China's agricultural regions fail to reflect China's economic success. Farming methods are largely primitive with many farmers farming at a subsistence level. The household registration *hukou* system, designed to govern where people work based on their hometown is incompatible with China's rapid growth (China.org, 2010:1). The system was more suitable for the planned economy during the 1948 to 1978 period. Incomes are also low at approximately a third of those in urban areas which is causing a mass exodus of farmers to the urban areas in search of higher incomes. This transition from agriculture to an industry oriented economy can be related to that from Stage 1 to Stage 2 of Rostow's theory of the 5 stages of development (1960). Stage 1 involves a traditional society in an economy dominated by primary industry with limited technology and in a generally 'static' state (Rostow, 1960: 284). Stage 2 is characterised by setting the preconditions of what Rostow called 'Take-off' which is defined as "the interval during which the rate of investment increases in such a way that real output *per capita* rises and this initial increase carries with it radical changes in production techniques and the disposition of income flows which perpetuate the new scale of investment and perpetuate thereby the rising trend in *per capita* output." (Rostow, 1956: 25).

The Chinese government is in the process of changing rural land ownership from communal to private ownership and during this process, some farmers face challenges in using land as collateral (van Westen, 2011:55). The Chinese government has attempted to resolve these problems by reforming the *hukou* system numerous times; however these reforms were hindered due to resistance from associated ministries and local governments (Ren, 2013).

When these farmers arrive in the cities they work "illegally" for a lower income which is however still higher than what they would have made on the farms. It is promoting inequality between the Chinese people and is also leading to the development of the cities while the agricultural regions lag behind. It has also resulted in discrimination as it costs more for an individual to purchase a house in a city one was not born in, than for someone who was born there; the same applies to costs for school enrolment (Rui, 2010:1). As the farmers move from the farming regions, there is no longer enough food for the nation with much of the farmland being transformed into urban centres. China is already importing food with the U.S. being the main source; it is estimated that by 2020 food imports will double (Fishman, 2005:200).

China's restriction of opportunities in the rural regions has resulted in the rural populations becoming a source of cheap, migrant labour where they could have become potential entrepreneurs. The growth rates of net incomes for rural populations have plummeted in both absolute terms and relative to those of urban households. This is because the rural people have been excluded from asset appreciation and forced into positions requiring unskilled labour hence lower incomes (Huang, 2006: 10).

4.3. Smoke Screens and Mirrors: The Case of Shanghai

Even in the cities, the underlying situations are not always positive. There is no question as to the image of grandeur presented by Shanghai, with its towering skyscrapers and vibrant scenery and culture; the world has long been enamoured with Shanghai. Facts such as its Maglev-train being the most advanced in the world or that since the mid-1990s there has been the construction of over three thousand buildings exceeding eighteen stories further paint a picture of success leading Huang (2006:3) to refer to Shanghai as "the vanguard of market reform in China".

Huang (2006:4) goes further to state that much of the hype associated with Shanghai is overly derived from perceptions and these "impressive skylines and exalted GDP performance" hide a troubling reality- the dire condition of its indigenous corporate sector. Instead of using conventional indicators like GDP and FDI, microeconomic dimensions such as household income and entrepreneurship in Shanghai are used. From these variables Huang (2006:2) shows that the praise that Shanghai receives based on its impressive infrastructure and development has in effect had a negative impact on China's real economic growth path. The rapid increase of per capita GDP has not been reflected in income levels, the level of inequality has also been increasing since the 1980s. Such things coupled with corruption in the land development sector make for a weak economic foundation.

4.4. Continued Liberalisation?

Scissors (2010:1) claims that declaring China as a potential global economic leader by simply looking at GDP figures is not enough. China is able to effectively control the basis of trade and in turn rapidly grow its GDP at the expense of its trade partners. There is a need to consider other factors that come into play. He further claims that the market reform in China has all but ceased. After the Asian financial crisis of 1998, there was a combination of reform and state intervention. This was followed in the 2000s by the early implementation of the WTO concessions. In price terms, China had been heading away from the market long before 2008. The initial stages saw a reduction in the privatisation of the corporate sector which was then followed by explicit reversal of privatisation by the Chinese government in some sectors such as health care (Scissors, 2010: 5; Dongmei and Darimont, 2013). Constant intervention by the state in energy, food and healthcare sectors has in some cases stalled liberalisation of prices. This has resulted in industrial competition being distorted and seeming more like a political battle between state firms. Inward foreign investment is also facing increased restrictions with an antimonopoly law being passed which applies to foreign investments and which explicitly excludes state enterprises. Gilboy (2004:34) recommends that instead of slipping back into limited myopic trade protectionism that could undermine their present favourable state, China should rather engage in renewed domestic political reform.

5. A POSSIBLE STRATEGIC PARTNERSHIP

The nature of relations between the U.S. and China are described as being characterised by distrust which could be "potentially very corrosive" yet unavoidable (Lieberthal and Jisi 2012: 49; Christensen, 2011: 54). Recommendations are further given on how best to manage this relationship.

There is distrust between the U.S. and China as American leaders see evidence that China regards itself as Number Two thus making the U.S. Number One. This attitude is also reflected in Chinese media and has led top U.S. authorities to conclude that China seeks to displace the U.S. They also view current U.S.-China relations as ultimately a zero-sum game even though each country needs the other- for instance China for its cheap manufacturing and the U.S. for its markets (Brzezinski, 2011: 24). The expansion of the Chinese army to the Western pacific is viewed by the U.S. as a possible threat to their military's flexibility in the region in which they have vital commercial and diplomatic interests to protect (Lieberthal and Jisi, 2012:23). There is also little interaction between both parties and some in the U.S. interpret the Chinese military expansion as part of a broader plan to eventually deny the U.S. forces access and restrict their ability to operate freely in the regions beyond China's territorial waters. In response to this, the U.S. is putting in place contingency strategies to guard against China's supposed plans. Washington's decision to assist India with its nuclear energy projects has caused China to be apprehensive and in turn increase support for Pakistan to delve into nuclear energy (Brzezinski, 2011: 24). The rise of China as the powerhouse of Asia has led to a relative decline in U.S. influence and authority in Asia as well as increased influence and integration of the Association of Southeast Asian Nations (ASEAN) (Shambaugh, 2005: 64).

Attempts to recover from the international financial crisis have made American leaders more aware of the faults in their political system. This has in turn made them more suspicious of countries potentially trying to take advantage of these challenges, especially in the economic and trade spheres (Lieberthal and Jisi, 2012:23). This is especially true in cases involving cyber theft of American intellectual property, mercantilist policies which reduce competitiveness in key American industries and currency policy restricting American exports to China. The potential of China's economy and military continues to grow at a time where the U.S. is experiencing major difficulties. Additional U.S. anxiety stems from Asian countries adjusting their foreign policies indicating that they have decreased confidence in the future of the U.S. (Lieberthal and Jisi, 2012:23). America also strongly believes in democracies rather than authoritarian political systems which it deems are less trustworthy. The Chinese also take special care to conceal their core political processes thus leading to America viewing China's decision-making system as being strategic and coordinated.

In the Chinese camp, Beijing has in response to Washington's rising concern over their strategic intentions, assured them that China does not seek to challenge or 'overthrow' the U.S.. In addition, Chinese leaders have implemented methods to reduce unnecessary nationalist opinions directed at the U.S. by Chinese media. China blames the mutual distrust shared between the two nations as a result of America's attitude and misconceptions about China. Chinese distrust has been visible in varying degrees; from fears of America interfering in Chinas internal politics to suspicions of America trying to prevent China from becoming a great global influence (Lieberthal and Jisi, 2012:8). China has also been gaining confidence from instances that include their resilience to the financial crisis and hosting the Olympics.

Chinese leaders do not believe in American ideology and how it advocates issues such as civil rights, religious and political freedom; and have guarded against its influence (Lieberthal and Jisi, 2012:11). This has led them to perceive U.S. policy towards China as dividing and "Westernising" their country and this was exacerbated by America's involvement in China's political systems such as the U.S.'s response to China's situation with Tibet. The American military has also increased its surveillance of China despite reassurance from Washington that they do not intend to 'contain' China. The Chinese also views U.S. trade protectionism as a sign of America's losses in global competition (Lieberthal and Jisi, 2012:14). In the past, America's unilateralism caused unnecessary antagonism of its allies and the same can be said for China's relationship with its neighbours given some of the stances it chooses to take. For instance its seeming lack of concern over the violence between North and South Korea in (Brzezinski, 2011: 24; Christensen: 2011; 58). Failure to consolidate and broaden their cooperation would not only damage both nations, but the world as a whole.

Now the question which remains is how China will integrate into the existing Western-oriented world order- will it overthrow or merge with it? If China becomes even more powerful and U.S. influence around the world 'erodes', Ikenberry (2008: 23) states that two things are likely to happen. China will attempt to use its influence to alter rules and institutions of the international system to better serve its interests and once this happens, the economies of that system-particularly the declining hegemon, will increasingly see China as a security threat. In such an environment it is predicted that the typical features of a power transition will ensue- tension, distrust and ultimately conflict between America and China.

Ikenberry (2008:24), goes further to say that this outcome is not inevitable and the rise of China need not trigger a "wrenching hegemonic transition". China does not only face the U.S. but a system that is Western-oriented and integrated in a rule-based structure with deep political fundamentals-such a system is difficult to overturn but easy to join. It is thus recommended that Washington shape the environment in a way that allows China to make critical strategic choices and make it easier to join and harder to overturn the rules and institutions developed by the West (Ikenberry, 2011: 25).

Ultimately, China's growth means different things to different countries. For example, the Europeans are said to see China in its capacity of increasingly producing high-quality goods, further intensifying the competitive challenges faced by Europeans. North Americans delight in the influx of cheap apparel and electronics whilst South Americans see China as an increasingly important buyer of their resource based exports (Eichengreen & Tong, 2005:78).

A dialogue based approach is recommended, particularly making use of international platforms such as the Asia-Pacific Economic Cooperation (APEC) Leaders Meeting and should they prove ineffective, the leaders in the respective countries must consider how to best maximise cooperation whilst minimising tension and conflict (Brzezinski, 2011: 24; Liberthal and Jisi, 2012: 15). Lieberthal and Jisi (2012:7) conclude that it is in China's best interest to engage in a cooperative relationship with America in-order to promote their desired levels of modernisation. Christensen (2011: 55) mentions how without China, Washington will increasingly face challenges in trying to deal with the worlds issues such as nuclear propagation, climate change and economic instability at a global level.

Building trust is going to be difficult as the sources of mistrust are complex and also run deep, and both sides do not understand each other. Regarding their economies and trade, each country is advised to increase investment in the other. Through being more involved in each other's economies, they will facilitate a better understanding of their different institutions. The U.S. is reassessing its trade regulations and it is expected that there will be a reduction in technology transfer restrictions from either side.

6. CONCLUSION

Lastly, Lieberthal and Jisi (2012:26) state that the U.S. welcomes a wealthier and globally more involved China on the condition that China tries to be a constructive player at a regional and global level. They also recognise "…that China is a significant player in the regional and global economies and that America cannot significantly constrain China's growth and should not regard doing so as desirable." They should rather be content that there are noteworthy advantages for America from the presence of a richer, more globally integrated China. Americas concern over China's new position is reasonable as they [and the world at large] have never seen anything like it, making their response of paramount importance. It is thus necessary to have intensive discussions between the two countries where they can each air their concerns and reach a mutual understanding. This indeed will be a difficult feat that will not be accomplished overnight, but with mutual respect and appreciation of individual differences it can be made easier.

China still has some way to go from a development perspective and should they reach developed country status, the belief is that 'space' can be made in the world for two hegemons. China has the potential to acquire great power which also comes with an equal share of responsibility, Henry Kissinger once said, "Who controls the food supply, controls the people; who controls the energy can control whole continents; who controls money can control the world."

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Appendix 1: China and USA GDP Change Trends (1960-2011)

Year	China GDP (Trillions USD)	% Change China	United States GDP (Trillions USD)	% Change USA
1960	61		521	
1961	50	-18.03	539	3.45
1962	46	-8.00	580	7.61
1963	50	8.70	612	5.52
1964	59	18.00	657	7.35
1965	70	18.64	712	8.37
1966	76	8.57	781	9.69
1967	72	-5.26	825	5.63
1968	70	-2.78	901	9.21
1969	79	12.86	973	7.99
1970	92	16.46	1,025	5.34
1971	99	7.61	1,113	8.59
1972	112	13.13	1,225	10.06
1973	137	22.32	1,369	11.76
1974	142	3.65	1,486	8.55
1975	161	13.38	1,623	9.22
1976	152	-5.59	1,809	11.46
1977	172	13.16	2,014	11.33
1978	148	-13.95	2,276	13.01
1979	177	19.59	2,544	11.78
1980	189	6.78	2,768	8.81
1981	194	2.65	3,104	12.14
1982	203	4.64	3,228	3.99
1983	228	12.32	3,507	8.64
1984	257	12.72	3,900	11.21
1985	307	19.46	4,185	7.31
1986	298	-2.93	4,425	5.73
1987	270	-9.40	4,699	6.19
1988	310	14.81	5,062	7.73

1989	344	10.97	5,440	7.47
1990	357	3.78	5,751	5.72
1991	379	6.16	5,931	3.13
1992	423	11.61	6,262	5.58
1993	441	4.26	6,583	5.13
1994	559	26.76	6,993	6.23
1995	728	30.23	7,338	4.93
1996	856	17.58	7,751	5.63
1997	953	11.33	8,257	6.53
1998	1,019	6.93	8,741	5.86
1999	1,083	6.28	9,301	6.41
2000	1,198	10.62	9,899	6.43
2001	1,325	10.60	10,234	3.38
2002	1,454	9.74	10,590	3.48
2003	1,641	12.86	11,089	4.71
2004	1,932	17.73	11,798	6.39
2005	2,257	16.82	12,564	6.49
2006	2,713	20.20	13,315	5.98
2007	3,494	28.79	13,962	4.86
2008	4,522	29.42	14,219	1.84
2009	4,991	10.37	13,864	-2.50
2010	5,931	18.83	14,447	4.21
2011	7,298	23.05	15,094	4.48

Source: World Bank (2012)